

Dialogue with Outside Corporate Auditors



Two independent outside auditors talk about SBI Sumishin Net Bank's strengths and challenges

What governance is necessary to support the realization of its innovation?

— First, could you both speak about what you do as outside auditors?

Hidaka I see my job as auditing and advising board directors on the execution of their duties from a position that is independent of the company as an accounting professional. Since I have extensive experience in auditing typical business corporations, I also carefully check things that go beyond the banking sector. For example, I ensure that decisions on investing and financing new businesses or providing the necessary information are being carried out properly.

Iwashita My previous work was for the Bank of Japan on the regulatory side, supervising various banks to make sure that they fulfilled their social responsibilities in terms of business management, information disclosure, the stable functioning of their systems, and things like that. After leaving the Bank of Japan, I became a spokesperson for shareholders, assessing

whether or not a company is conducting its business properly. Such a role is all the more important here, as SBI Sumishin Net Bank (SSNB) takes on many more new challenges than ordinary banks. With my many years of experience in risk management of information systems for financial institutions and system operation, my perspective extends beyond that of an auditor, as I can provide checking and advice from additional perspectives as the bank pursues some pioneering challenges.

— Last year, the company was listed on the Tokyo Stock Exchange Standard Market, a major undertaking, and your work as auditors must have covered all sorts of tasks. Please tell us honestly how you feel now about things that have taken place over the last few years.

Hidaka So much has indeed happened over the last year or two, but over the last three years or so, including all of the preparations for the TSE listing, I feel that SSNB has shifted to a management style that is more aware of its many stakeholders. The materials being prepared for investors have also improved greatly, and the presentation materials used at results briefings are quite good and are provided in a timely fashion. I consider it a high level of completeness for a company in its first listed year.

Iwashita An ordinary bank rarely has any deficiencies in its disclosure materials. SSNB, however, engages in operations that are distinctly outside the purview of an ordinary bank, which calls for changes in the way information is disclosed. As is often the case with start-ups, there are some jobs that require careful consideration. So I'm often surprised to find myself saying, "This is a bank, isn't it?"

— What is the atmosphere like at board meetings?

Hidaka SSNB holds a briefing session for us several days before the board meeting at which the directors speak in detail. Sometimes we point out things that can change the agenda items of the board meeting drastically, but in general, I feel that our opinions are taken quite seriously. In other companies, it seems rare that anything changes at such briefings, but that is not the case at SSNB. I feel that this board functions with a lot of speed and flexibility.

Iwashita There is no sense that the board meeting is a mere formality, which is a problem characteristic of large companies. Rather, there is a broad-mindedness that is open to unscheduled remarks, which is a good thing.

Hidaka Those who attend the board meetings but who are not on the board are also doing their best.

Iwashita Times when problems arise are a good example. It's tough when there is tenacious questioning at the Management Meeting. I used to do the same kind of work, so I understand the feeling very well. But you can't just shut things down at those times. As auditors, we sympathize with the approach of having people speak their minds, whether or not a problem is involved.

— Please tell us about any challenges you feel that SBI Sumishin Net Bank is facing at the present time.

Hidaka The flip side of what we have been talking about is SSNB's emphasis on "creation" and "transformation." In its pursuit of new business, occasionally materials will be vague or lack clear explanations. At those times, even I have to ask, "Where did this figure come from?"

Iwashita I don't like the idea that because it is a bank, it has to be overly meticulous about these things, because that can make the organization itself too rigid. To innovate means to shoulder a certain amount of risk, which can also result in losses or other kinds of issues. But we also can't let problems slide with a simple acknowledgment. It is necessary to take a hard look at them and this can be challenging emotionally.



— From your perspective as auditors, what do you see as the strengths of SBI Sumishin Net Bank?

Iwashita As a security specialist, I think it is significant that SSNB was the first Internet bank in Japan to adopt a smartphone login feature using FIDO biometric authentication. Other companies have found this difficult to introduce out of concern for customers who do not use smartphones, but because it is an Internet bank, SSNB's customers are end users with a higher basic level of net literacy, which is one strength. Out of personal interest, on my smartphone, I try out and compare different banking apps, whether from traditional banks or Internet banks. My conclusion is that SSNB's app provides the smoothest, most polished experience.

Hidaka As SSNB has built reliable assets and profits through its digital bank operations, it is investing in new businesses such as the BaaS (Banking as a Service) and THEMIX, which is a very stable business approach. Another positive is rising performance with a lending policy that has an extremely low rate of defaults, centered on home loans.

Iwashita Incumbent banks do not specialize in home loans because it is hard to do business with the low profit margin, but SSNB is an Internet bank, so its funding costs are low, which provides the advantage of being able to generate

sufficient income even if a large proportion of lending assets are mortgages.

Hidaka It may be odd to hear this coming from an auditor, but I feel that since SSNB's existing business is so strong, it could be even bolder in developing new business, even if plans involve enduring red ink for several years.

— In what areas would you like to see improvements made?

Hidaka This year, SSNB appointed its first female executive officer, but the percentage of women in managerial positions within the company is still quite low, something I would like to see raised. To achieve that requires more than simply encouraging women to work harder; men's mindset needs to change. Half of all potential and existing customers in the banking industry are women, and I feel that creating a progressive corporate culture ahead of other banks in terms of women's advancement would help in promoting a customer-centric transformation.

Iwashita I couldn't agree more. I look forward to Ms. Hidaka's further remarkable service as a female representative who attends Board of Directors meetings.

